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SUBJECT: TRANSPORT OF IRAQ-BOUND U.S. WHEAT REMAINS A PERSISTENT PROBLEM

REF: A) DAMASCUS 4187 B) DAMASCUS 4762

1. (SBU) Summary: Over the past three months, Post has witnessed an incremental increase in the amount of Iraq-bound, U.S. wheat accumulating at the port of Tartous awaiting transport from Syria into Iraq. On the surface, the reason for the delay in wheat transport is a lack of available trucks. From what others tell Post, however, trucks are available and other commodities are being transported to Iraq. Perhaps closer to the truth, the relationship between the three principal parties - Cargill, Iraqi Ministry of Transport, and the SARG - continues to deteriorate and seems to be the largest obstacle to finding a solution that would reduce the backlog and allow Iraq and Syria to benefit from wheat transshipments through the Syrian port. End summary.

2. (SBU) The movement of grain from the Syrian port of Tartous to Iraq has been a continual problem that Cargill has encountered since April (reftels). Cargill expressed repeated frustration at its inability to obtain trucks and drivers for transport of the wheat from the Syrian port of entry at Tartous to various points in Iraq. The problem intensified after the Iraqi Ministry of Transportation (MOT) took over from Cargill the responsibility for moving the wheat from Tartous to Iraq, at which point Cargill and the MOT began to compete directly for trucks, drivers, and grain-storage facilities. Both Cargill and the MOT have been unable to consistently obtain the large number of trucks necessary for wheat transport and both have blamed the other of sabotaging their efforts to do so, though neither can offer a satisfactory explanation as to why trucks are inaccessible. Post contacts report that the MOT specifically only has access currently to about 30 percent of the trucks it needs to move grain from the port.

3. (SBU) Cargill's contract in April represented the first direct commercial sale of U.S. wheat to Iraq in several years. To transport the 330,000 MT of grain, Cargill contracted exclusively with a transportation agent, who owns no trucks himself and must sub-contract trucks from other sources. Cargill has relied primarily on this agent and a U.S.-based USDA grains inspector in who travels regularly to Tartous, rather than a Cargill employee, to oversee its interests and ensure that cargo is expeditiously offloaded and transported. As problems with truck accessibility intensified, Cargill sent a representative to Tartous who was initially instructed to not meet with visiting Iraqi MOT officials to find a means of reducing grain shipment delays. Comment: Though the Cargill representative did eventually meet, the meeting was acrimonious and ended with both sides restating their pre-existing grievances against each other. End comment.

4. Though Cargill currently controls most of the trucks moving U.S. wheat from Tartous to Iraq, a recent delegation from the Iraqi MOT sought to wrest control of the transportation chain from Cargill. On October 24, at the insistence of the Iraqi MOT delegation, the Syrian Minister of Transport Makram Obeid signed a memorandum of understanding that required Cargill and any other company carrying GOI-owned cargo to seek approval from the Iraqi MOT in order to utilize Iraqi trucks for transport of goods. Also, the Iraqi MOT had previously expressed to us lukewarm feelings on the transport of grain through Tartous to Iraq, preferring instead to divert vessels to the port in Umm Qasr regardless of additional freight fees, insurance costs, and contracting of security guards to monitor cargo.

5. (SBU) Comment: Post believes that Cargill and the Iraqi MOT continue to work at cross purposes, despite the fact that Cargill will fulfill its wheat transport responsibilities by the end of this week. Specifically, post contacts have suggested that Cargill shipped the most recently arrived vessels to the port of Tartous in rapid succession so that the Iraqis would be unable to discharge grain at a fast enough rate to avoid demurrage fees, currently 15,000 USD per ship per day. End comment.

6. (SBU) The SARG has remained relatively passive in its involvement with the transport of grain to Iraq. Thus far it has failed to enforce the MOU signed on October 24 and has not consistently provided Iraqi ships priority for

offloading as it had agreed to do in August. The success of the MOT's transfer of grain to Iraq in the coming months may dictate the extent to which it decides to utilize the Tartous port in the future. If the Iraqi MOT decides to divert all shipments of grain to Umm Qasr in lieu of Tartous, the SARG Port Administration stands to lose the port and offloading fees that it collects from these vessels in addition to customs fees and secondary revenues like the lucrative transportation contracts Syrian truckers currently enjoy.

17. (SBU) Comment. The Iraqi MOT's ability to efficiently transport its grain will be tested in the upcoming weeks, especially with additional vessels slated to arrive in December. The current contract marks the MOT's first attempt at managing the transportation of wheat into Iraq from Syria, and based on Post's observation, the MOT's challenge is not only to obtain trucks in Tartous to ensure a steady supply of grain into Iraq, but also to ameliorate business relations with Cargill and convince the SARG to implement the written commitments it has made to facilitate Iraq-bound wheat shipments. For its part, the SARG's seeming indifference to the potential loss of transshipment revenue is shortsighted but also characteristic.

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